1969 Annual Report
THE KROGER CO.

Kroger Food Stores

Kroger Food Processing

SupeRx Drug Stores

Family Center Stores

TopValue Enterprises

THE KROGER CO. ANNUAL REPORT 1969

The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45201

HIGHLIGHTS

	1969	1968	Change
SALES	$3,477,164,119	$3,160,837,821	+ 10.0%
INCOME BEFORE EXTRAORDINARY ITEM	$ 37,388,012	$ 34,003,258	+ 10.0%
EXTRAORDINARY ITEM	$ 1,342,120		
NET INCOME	$ 38,730,132	$ 34,003,258	+ 13.9%
DIVIDENDS PAID ON COMMON	$ 17,033,596	$ 16,315,471	
SHAREOWNERS' EQUITY	$ 309,299,320	$ 281,733,014	+ 9.8%
PER COMMON SHARE			
INCOME BEFORE EXTRAORDINARY ITEM	$ 2.84	$ 2.64	+ $ .20
EXTRAORDINARY ITEM	$ .10		+ $ .10
NET INCOME	$ 2.94	$ 2.64	+ $ .30
DIVIDENDS	$ 1.30	$ 1.30	
SHAREOWNERS' EQUITY	$23.34	$21.53	+ $1.81

TRANSFER AGENTS
The First National Bank of Cincinnati, Cincinnati
Bankers Trust Company, New York

REGISTRARS
The Central Trust Company, Cincinnati
Chemical Bank New York Trust Company, New York

CONTENTS

JACOB E. DAVIS

TO OUR SHAREOWNERS

Kroger had another record year in 1969. Both sales and earnings reached new highs. As shown in the highlights, sales were up 10% over last year and ordinary earnings increased 20¢ per share. As compared with 1968, Lifo charges were up 11¢ per share, investment tax credits were down 4¢ per share, and unconsolidated companies contributed 7¢ more per share.

After a healthy start, the year 1969 became difficult in the spring and early summer. Rapidly rising costs of merchandise and supplies and spiraling costs of doing business, particularly wages and interest, slowed and then halted our good earnings trend. However, by year end we had regained our favorable earnings comparison with the previous year.

In 1969 we launched a new organization plan for growth and opportunity. It recognizes the several businesses which presently comprise The Kroger Co. Their separate reports are on the following pages. We believe that this new organization will improve the profitability and accelerate the growth of these businesses by affording each the flexibility to pursue opportunities and efficiencies unique to its particular business environment. In addition, the new plan provides an organization structure that encourages profitable business diversification. Already our new organization philosophy and plan are helping to improve results.

For 29 years our retired Chairman and President, Joseph B. Hall, served with distinction as a Kroger Director. By reason of age he is not eligible to continue. His intense interest, devotion and wise counsel will be missed.

The 1969 results were produced by a fine team effort. We are indeed grateful to our employees and Directors for what they contributed to the total success.

The year ended on a healthy trend. We are confident that our forward momentum will be maintained and that 1970 will be another year of profitable growth.

Sincerely,

Jacob E. Davis

Chairman and President

February 6, 1970

SALES AND EARNINGS New sales and earnings records were set in 1969. Consolidated sales of The Kroger Co. for 1969 were $3,477,164,119, an increase of $316,326,298, which was 10.0% over 1968 sales of $3,160,837,821.

Income before extraordinary gain was $37,388,012, an increase of $3,384,754 or 10.0% over the previous record net income of $34,003,258 in 1968. This amounted to $2.84 per common share on the average number of shares outstanding, up from $2.64 in 1968. The 10% federal income tax surcharge reduced earnings by 24¢ per share, which is equivalent to the amount reported in 1968.

A gain in the amount of $1,342,120 after taxes was realized from the sale of shares of stock in Blue Chip Stamp Company. This is equivalent to 10¢ per share, and is classified as an extraordinary item. The stock was among the assets of Market Basket, the Southern California company acquired in 1963.

JAMES E. BAKER
Vice President & Treasurer,
The Kroger Co.

Lifo charges for the year were 28¢ per share compared to 17¢ last year. Kroger is among the relatively few retailers using the Lifo method of inventory valuation. Rapidly rising costs of merchandise in recent years have increased Lifo charges significantly. During this time your company has realized substantial cash and tax benefits from the use of this accounting method.

Investment tax credits amounted to 22¢ per share, down from 26¢ in 1968. The investment tax credit has been eliminated on purchase of new equipment contracted for after April 18, 1969. Net income from unconsolidated companies was $2,235,204 or 17¢ per share, compared with $1,291,409 or 10¢ per share in 1968.

DIVIDENDS Dividends of $1.30 per common share were paid during 1969. Kroger has paid dividends out of current earnings for 68 consecutive years. The regular quarterly dividend of 32½¢ per share payable March 1, 1970, to share owners of record January 30, 1970, has been declared.

FINANCIAL POSITION Capital expenditures totaled $77,447,546. Expenditures for stores and related equipment were $37,670,344; distribution centers and equipment and vehicles, $30,990,591; food processing facilities and equipment, $7,770,480; and miscellaneous items, $1,016,131.

Working capital was $56,319,244 at the year end. This is down $21,243,218 from the preceding year. Substantial amounts were again borrowed on a short-term basis from banks and in the commercial paper market during 1969. At the year's close, $36,000,000 of such borrowings were outstanding.

Your company's plans for profitable expansion and growth indicate capital expenditures will remain at least at 1969's high level and may be higher. Additional debt capital probably will be required this year.

MANAGEMENT DEVELOPMENT The diversified businesses in which the company is engaged were recognized formally during the year by the implementation of a new organization plan for growth and opportunity.

Separate management groups were established for Kroger's five major businesses, each of which is described more fully in this report. This alignment of management personnel will facilitate top management development by giving profit-making responsibility and final decision-making authority to a greater number of executives. The plan provides greater opportunity for many management people to advance to the large number of responsible positions that grow out of the expansion of Kroger's many businesses.

During the year James E. Baker was elected Vice President and Treasurer and Robert E. Saffron was elected a Vice President with responsibility for six retail food store divisions.

CORPORATE CITIZENSHIP Kroger long has recognized its responsibilities and opportunities in the communities in which it does business—to make them better places in which to live, work and raise a family.

ROBERT O. ADERS
Vice President & Secretary,
The Kroger Co.

New dimensions were added last year. Responding to the national need for accelerated training and employment opportunities for disadvantaged individuals, your company joined with other companies as a full participant in the National Alliance of Businessmen (NAB). In some 30 communities, Kroger established special training and work programs for unskilled men and women who had previously encountered extreme difficulty in finding and holding jobs.

Working in cooperation with the U. S. Department of Labor under an MA-3 training contract, Kroger actually exceeded the hiring goals initially established with the NAB for 1969. Continued support of this program is planned during 1970.

GOVERNMENT AFFAIRS More than ever before in our corporate history, government officials and agencies are a major factor in our business environment. We enter 1970 with confidence that we are able to conduct our businesses in a manner acceptable to these forces without sacrificing our freedom to grow and prosper in the private-enterprise system.

In 1969, the Federal Trade Commission—after a full decade of legal proceedings—dropped its Clayton Act merger case against Kroger. We are now free of any pending anti-merger charges.

OUR EMPLOYEES Kroger employees displayed new pride in their company, and the important jobs they perform as individuals—improving the quality of our customers' lives by providing nutritious foods, health care and convenience as economically as possible. The company's continued growth, accompanied by the excitement of planned diversification, gives our people confidence that the years ahead will offer them increased opportunity for personal growth and fulfillment.

KROGER FOOD STORES

LYLE J. EVERINGHAM
President,
Kroger Food Stores

Our supermarkets produced record sales and earnings in 1969.

Intense price competition coupled with higher product costs and rising operating expenses required continuous attention. We remain confident, however, that improved earnings can be achieved by increasing customer preference for our products and services—and by making our operations more efficient in every market we serve.

At year's end, we were operating 1,488 food stores in 23 states. In 1969, we remodeled 112 of these units in a major way, and we plan to accelerate this program in 1970.

Emphasis will be placed on store departments which are experiencing increased popularity among our customers—baked goods, dairy products, frozen and prepared foods, and health and beauty aid items. Effective store modernization quickly produces increased sales and profits from gratified customers.

During the past year, 50 new stores were opened and 41 outmoded facilities were closed. Financing delays experienced by prospective landlords and developers caused us to fall short of our projections. At the year's end, however, 39 stores actually were under construction. Of these, 19 will open during the first quarter of 1970. Total new stores in 1970 will substantially exceed 1969 openings.

We opened three new meat fabricating and distribution plants last year. These new facilities serve Kroger stores in five divisions—Memphis, Little Rock, Louisville, Roanoke and Charleston. Three more plants will be opened in 1970, one to replace a smaller facility.

Our 12 existing meat plants supply 1,167 Kroger stores with wholesale cuts of U. S. Choice Tenderay Brand Beef, ready for final in-store preparation to meet the menu-planning needs of our customers. Some plants also furnish stores with fresh meat and poultry products which are prepared and packaged for immediate retail sale.

Last year, 252 million pounds of Tenderay Brand Beef were processed by these plants. Specially selected U. S. Choice beef is made more tender by Kroger's exclusive processes to be sold to our customers with an unconditional money-back guarantee: Tenderay Brand Beef is *naturally* fresh and tender.

Continuous inspection by professionally-trained personnel of the U. S. Department of Agriculture and use of the most modern and effective sanitation procedures available to the industry also are important components of our meat plant program.

Providing customers with superior fresh fruit and vegetables is also a high priority objective of Kroger Food Stores. A team of experienced and professional produce buyers works in the major crop-producing areas of North America. Their goal is excellence: Our perishables will be the best customers can buy—best in quality, best in variety, best in value.

Strawberries are just one example. A few years ago, supermarkets were able to provide top-quality fresh strawberries only a few weeks each year. In 1969, this flavorful fruit was available to Kroger customers almost every day of the year.

Major expansion of our warehousing and distribution facilities was continued last year to handle our growing business. In August, a new 248,000 square foot distribution center was opened in Nashville. It features materials-handling systems which are technologically advanced and designed to improve efficiency and reduce operating costs. At the same time, rooms equipped with scientifically-controlled temperature and humidity greatly improve our ability to preserve the high quality of our perishable and frozen products.

Another new distribution center is under construction in Houston to serve the rapidly-growing market in southern Texas and Louisiana. Additionally, expansion of distribution centers in Detroit, Little Rock, Louisville, Memphis, Roanoke and St. Louis is under way.

Sunrise Fresh Produce—best in quality, variety, value

Meat fabricating plants produce fresh ground beef daily

Kroger's USDA Choice Tenderay® EZ Carve Rib Roast

KROGER FOOD PROCESSING

GENE D. HOFFMAN
President,
Kroger Food Processing

Last year food manufacturing continued its record of increasing annual contribution to total company earnings.

This profitable performance is due primarily to capitalizing more fully upon those growth opportunities for which Kroger Food Processing has the greater capability.

In 1969:

—We completed our first full year of production in our sparkling new candy kitchens. This facility, located near Cincinnati, showed substantial improvement in profitability. We now produce nearly 300 different candy items, a large number of which are manufactured under processes which are new to the candy industry.

—We installed more advanced equipment in our modern egg grading plants and developed exciting new plans to improve and enlarge our broiler and hatching operations.

—We neared completion of our new 172,000 square foot sausage, wiener and luncheon meat processing plant in suburban Cincinnati. Distribution from this plant to Kroger supermarkets is scheduled to begin this spring. Our product line will feature a unique resealable package combining convenience and eye appeal for Kroger customers.

—We introduced Yubi Yogurt, the latest addition to our dairy foods family of 110 items. Sales of this new product line have exceeded all projections and we have expanded production in all plants.

—We developed a selective program to market our products to other food distributors. Arrangments have been completed with several customers, and we are enthusiastic about this profitable growth opportunity.

Kroger manufactured products are produced to meet rigid quality standards. They are packaged attractively, and priced at levels recognized to be outstanding values by Kroger customers.

Illustration: Our Kroger quality egg program.

From 1960 through 1969, egg sales in the entire U. S. increased by a total of 144 million dozen. During this same period, Kroger egg sales increased by 45 million dozen—a third of the national increase.

Our egg grading plants feature continuous inspection by U. S. Department of Agriculture inspectors. In addition, USDA personnel conduct on-the-spot quality examinations in Kroger stores. Over 1,500 of these store audits in 1969 showed that Kroger consistently offers the highest quality eggs in the nation.

Again last year, our egg sales significantly exceeded 100 million dozen.

We have begun construction of a new bakery in Houston. Scheduled to be in production in late 1971, it will be one of the most complete and efficient bakeries in the Southwest.

We have also designed and developed a new easy-close bag for packaging Kroger breads. Our extensive line of breads, cakes and pastries are now among the most attractively packaged fresh bakery products in the country. To accommodate increasing bread sales, we added a second bread production line in our Cleveland bakery.

Our four milk and ice cream plants—Cincinnati, Indianapolis, Detroit and St. Louis—now serve 20 of the 26 Kroger Food Store divisions. Last year, we recorded our 10th consecutive annual sales gain.

Kroger is proud to feature a wide assortment of leading national brands in its supermarkets. Products of equally high quality of our own manufacture are marketed to complement some of these national brands. This combination of national and Kroger brand products provides Kroger customers the widest variety of preference and value choices.

High quality in attractive packages

Kroger quality eggs—the world's finest

SupeRx Drug Stores

SupeRx was founded in 1961. Today, just nine years later, it is a major factor in the retail drug store industry.

In 1969:

—We produced sales of $246,899,503, an increase of 12% over the previous year. SupeRx now ranks third in sales in the industry, even though 57% of our stores are less than four years old.

—We substantially increased our contribution to total company profits. Further, as more SupeRx stores reach maturity, we anticipate even more gratifying growth in profitability. Several new programs have now been launched to increase earnings in 1970 and future years. Some of them are improvement of margins through a better balance of upgraded merchandise, expansions into new product lines bearing the SupeRx brand and store management training and development in the newest merchandising techniques.

—We filled nearly 14 million prescriptions, up 14% over 1968. SupeRx customers are served by 1,000 registered pharmacists, many of them in important management positions. Five of our six Division Managers hold pharmacy degrees, 85% of our District Managers are registered pharmacists and 75% of our stores are managed by registered pharmacists.

—We completed plans to open our first photo-finishing plant in 1970. This facility, located in Cincinnati, is equipped with the latest in automatic equipment and can process one million rolls of color and black-and-white film a year. It will serve the fast-growing volume of film processing business produced by 178 of our drug units.

At year's end, we were operating 381 stores—second in the industry. These units are located in 22 states and contain 3,482,356 square feet of floor space. In 242 locations, we are partners in profit with neighboring Kroger Food Stores.

We opened 37 new stores last year. Three units were closed. In the first quarter of 1970, we have scheduled 14 stores for opening. An additional 22 stores are under construction and will open later in the year. Our store expansion program, which calls for more than 50 new stores each year, will enable us to attract additional business resulting from the nation's expanding economy.

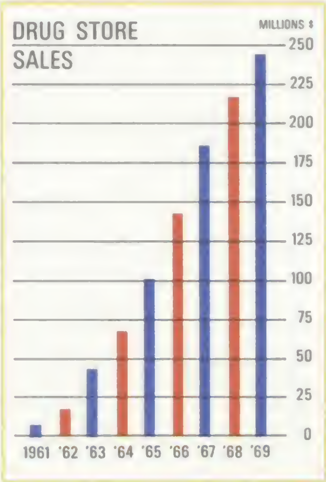
JAMES P. HERRING
President,
SupeRx Drug Stores

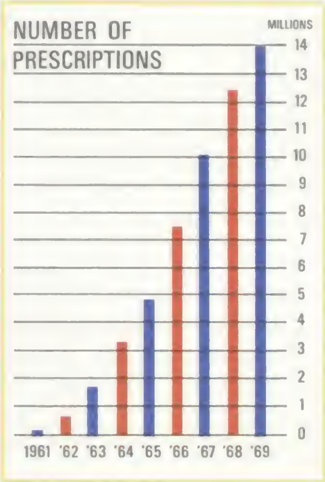
The growing number of SupeRx stores, located geographically from coast to coast, puts us in excellent position to capitalize upon the mounting national interest in public and privately-sponsored health care programs. SupeRx is fully prepared and eager to participate in these programs and in the resulting growth opportunities they will afford us.

Increasingly, our stores are being managed by registered pharmacists. These professionals are prepared for their important responsibilities through careful company training and they will fill new positions of responsibility created by our dynamic new store program. We are working closely with 36 of the nation's colleges of pharmacy to stimulate the interest of graduating students in joining SupeRx. The results have been pleasing and we look forward to continued interest in SupeRx from the new generation of professional pharmacists.

Present trends and indicated future conditions favor our high volume, competitively merchandised drug stores.

Reliable prescription service provided by 1,000 registered pharmacists





KROGER FAMILY CENTER STORES

JOHN M. LOCKHART
President,
Family Center Stores

Eight new Family Center stores were opened in 1969. At year's end, 24 Family Centers and five Thriftown stores were in operation. Eighteen new stores are planned for 1970. Of these, seven are actually under construction, all of which will open during the first quarter of 1970.

Family Centers present the customer with a convenience of marketing and a choice of all home needs under one roof, a combination our competition generally cannot match. We believe the Family Center concept closely fits the shopping patterns of the future. Of our 24 Family Centers, 10 are in cities in which Kroger did not operate previously.

The Family Center offers a complete line of food products attractively displayed in a spacious area of the facility. The store is designed to permit the customer to shop at random among all departments. The drug department offers fast and dependable prescription service and a full line of health and beauty aids. General merchandise departments include women's fashions, men and boys', domestics, shoes, sporting goods, toys, automotive parts and accessories, housewares, jewelry, camera, electronics, and a snack bar. One set of check-out registers serves the entire store to provide customers all the convenience of one-stop shopping. The typical Family Center is approximately 54,000 square feet in area and provides on-premises parking for 300 or more cars. Thriftown stores are somewhat larger and do not include a food department.

Kroger Family Center Stores has formulated an expansion program which will make your company a major factor in the discount merchandising field. Our goal is to be operating 100 Family Centers with aggregate sales of $500 million by 1975.

Bright, spacious food department

The latest in fashions

Broad assortment of general merchandise

TOP VALUE ENTERPRISES

WILLIAM P. RUNYAN
President,
Top Value Enterprises, Inc.

Top Value Enterprises, Inc. was established in 1955 to provide a high-quality trading stamp program for all types of retailing. Within a short time, it became the second largest trading stamp firm in the country—and revenues have increased each year since its founding.

The Kroger Co. is the principal shareowner in Top Value Enterprises, Inc. Nearly all Kroger Food Stores provide Top Value stamps for customers. They have been a significant factor in Kroger's continuing growth.

Top Value operates more than 480 gift centers in 37 states, providing service to more than 33,000 business establishments through 48 zone and incentive offices.

An outstanding feature of the Top Value program is its gift catalog featuring nationally-known, high-quality merchandise. It is the largest and most attractive in the industry, and several issues have included covers illustrated with original paintings by Norman Rockwell. The present 192-page issue contains more than 3,000 premiums.

Leisure-time activity will increase dramatically in the future, and Top Value is equipped to capitalize profitably on this growth opportunity. It owns and operates a full service travel agency.

Top Value also is a leader in the business incentive field, an area of rapid growth. Incentive programs are specially designed for many of the country's prominent manufacturing, transportation and financial firms. These programs are used to stimulate sales, safety, service and production. Additionally, the company is a significant supplier of promotional merchandise to retailers, manufacturers and other businesses.

Attractive gift center—one of 487 in 37 states

CONSOLIDATED BALANCE SHEET

ASSETS	DEC. 27, 1969	DEC. 28, 1968
Cash	$ 29,562,585	$ 27,731,987
Receivables	37,747,827	27,877,354
Inventories (Note 2)	271,889,239	233,176,798
Store and general supplies	7,200,414	7,555,761
Prepaid and miscellaneous assets	9,680,337	9,069,354
Current Assets	356,080,402	305,411,254
Land	18,530,518	15,053,858
Buildings	69,551,553	56,952,596
Equipment	331,765,651	295,939,182
Leaseholds and leasehold improvements	95,738,792	91,576,415
Less allowance for depreciation and amortization	(210,332,716)	(198,559,618)
Property, plant and equipment, net (Note 3)	305,253,798	260,962,433
Investments in and advances to unconsolidated companies (Note 1)	16,934,705	9,313,275
Excess of cost of investments in consolidated subsidiaries over equities in net assets (Note 1)	14,050,640	14,050,640
Total Assets	$692,319,545	$589,737,602

LIABILITIES

	DEC. 27, 1969	DEC. 28, 1968
Current portion of long-term debt (Note 4)	$ 2,331,000	$ 2,338,000
Notes payable	36,000,000	
Accounts payable	175,055,790	148,938,149
Accrued expenses	69,791,905	65,834,193
Accrued federal taxes	16,582,463	10,738,450
CURRENT LIABILITIES	299,761,158	227,848,792
Long-term debt (Note 4)	26,359,000	28,690,000
Deferred federal income taxes (Note 5)	16,270,342	14,359,950
Employees' benefit fund (Note 6)	40,629,725	37,105,846
TOTAL LIABILITIES	383,020,225	308,004,588

SHAREOWNERS' EQUITY

Preferred capital stock (Note 7)		
First preferred, par $100		24,000
Common capital stock, par $1 (Notes 8 and 9)		
Authorized: 18,000,000 shares		
Issued: 1969—13,538,476		
1968—13,471,864	83,212,640	81,340,025
Accumulated earnings (Note 4)	235,935,556	214,239,827
	319,148,196	295,579,852
Less, common capital stock held in treasury, at cost (Note 8)		
1969—286,772 shares; 1968—390,172 shares	9,848,876	13,870,838
TOTAL SHAREOWNERS' EQUITY	309,299,320	281,733,014
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$692,319,545	$589,737,602

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF INCOME

Years Ended December 27, 1969 and December 28, 1968	1969	1968
Sales	$3,477,164,119	$3,160,837,821
Cost of sales	2,782,469,285	2,531,065,038
Operating, general and administrative expenses	623,813,983	566,250,650
Total	3,406,283,268	3,097,315,688
Operating profit	70,880,851	63,522,133
Interest expense	5,713,043	3,875,284
Income before federal taxes	65,167,808	59,646,849
Federal income taxes (Note 5)	30,015,000	26,935,000
Income after taxes	35,152,808	32,711,849
Equity in net income of unconsolidated companies (Note 1)	2,235,204	1,291,409
Income before extraordinary item	37,388,012	34,003,258
Gain on sale of investment, net of applicable income taxes	1,342,120	
Net income	$ 38,730,132	$ 34,003,258
Per share of common stock (Note 10):		
Income before extraordinary item	$2.84	$2.64
Extraordinary item	.10	
Net income	$2.94	$2.64

CONSOLIDATED STATEMENT OF ACCUMULATED EARNINGS

Years Ended December 27, 1969 and December 28, 1968	1969	1968
Accumulated earnings—Beginning of the year	$214,239,827	$197,328,052
Net income for the year	38,730,132	34,003,258
	252,969,959	231,331,310
Dividends:		
Preferred	807	776,012
Common—$1.30 per share	17,033,596	16,315,471
	17,034,403	17,091,483
Accumulated earnings—End of the year (Note 4)	$235,935,556	$214,239,827

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF FUNDS

	Year Ended Dec. 27, 1969	Dec. 28, 1968
SOURCES		
From current operations:		
Net income	$ 38,730,132	$ 34,003,258
Charges to income not requiring funds:		
Depreciation and amortization	31,929,488	31,156,563
Provision for employees' benefit fund	3,523,879	4,363,100
Provision for deferred income taxes	1,910,392	(1,784,717)
Capital stock issued under stock option plans	1,872,615	697,135
Net book value of capital asset disposals	2,058,088	2,423,320
Total Sources	80,024,594	70,858,659
USES		
Capital expenditures	77,447,546	56,767,680
Dividends paid	17,034,403	17,091,483
Preferred stock redeemed		4,532,650
Purchase of common stock for treasury	1,040,604	
Reduction in long-term debt	2,331,000	2,338,000
Increase in investments and other assets, net	3,414,259	533,320
Total Uses	101,267,812	81,263,133
NET CHANGE IN WORKING CAPITAL	(21,243,218)	(10,404,474)
Working capital, beginning of the year	77,562,462	87,966,936
WORKING CAPITAL, END OF THE YEAR	$ 56,319,244	$ 77,562,462

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. The consolidated financial statements include the company and all of its domestic subsidiaries except Top Value Enterprises, Inc. and two other companies. Controlling interest in the two other companies, which in the aggregate are not significant, was acquired during 1969.

Investments in and advances to unconsolidated companies:

Domestic subsidiaries and fifty percent owned companies, at cost plus share of undistributed earnings since acquisition (equity in net assets amounted to $13,367,000)	$16,370,115
Foreign subsidiaries, at cost	564,590
	$16,934,705

The excess of cost of investments in consolidated subsidiaries over equities in net assets at dates of acquisition is not being amortized because, in the opinion of management, there has been no decrease in value.

2. Inventories are valued at the lower of cost, in part on a Lifo basis, or market.

3. Property, plant and equipment are stated at cost. Depreciation and amortization, computed principally on a straight-line basis, are included in costs and expenses in the amounts of $31,929,488 and $31,156,563 for 1969 and 1968, respectively.

4. Long-term debt:

3.6% notes maturing in 1971; with annual prepayments of $700,000	$ 7,700,000
5¼% notes, 70% maturing in 1978, 30% maturing in 1979; with annual prepayments of $500,000	7,150,000
5.3% notes maturing in 1981; with annual prepayments of $750,000	12,000,000
5½% notes maturing in 1977; with annual prepayments of $140,000 to November 1, 1973 and $160,000 thereafter	1,220,000
Other; annual prepayments due in varying amounts through 1972	620,000
	28,690,000
Less amounts due within one year	2,331,000
	$26,359,000

Under certain of the loan agreements, payments of cash dividends are limited. At December 27, 1969, accumulated earnings unrestricted, under the agreement carrying the maximum limitation, amounted to $139,222,145.

5. The provision for federal income taxes consists of:

	1969	1968
Currently payable	$28,104,608	$28,719,717
Deferred	1,910,392	(1,784,717)
Total	$30,015,000	$26,935,000

Investment tax credits applied to reduce currently payable federal income taxes amounted to $2,582,000 in 1969 and $3,289,000 in 1968.

The deferred federal income taxes result from differences between financial accounting and tax treatments principally for depreciation and pension costs.

6. The company and certain of its subsidiaries have noncontributory retirement plans for eligible employees. Pension costs accrued each year are presently being funded for only one of the plans. The total expense for 1969 and 1968 was $11,056,000 and $11,693,000, respectively. Past service costs are being amortized over forty years. There are no vested benefits in excess of pension funds and balance sheet accruals at December 27, 1969.

7. The company has authorized 750,000 shares of voting cumulative preferred stock. The stock has a par value of $50 per share and is issuable in series. None is outstanding at December 27, 1969. Effective December 2, 1968 the shares issued as Series A were called for redemption.
During 1969, the company purchased and retired the outstanding shares of First Preferred Stock.

8. Changes in Common Stock during 1969 were as follows:

	Issued		Treasury	
	Shares	Amount	Shares	Amount
Beginning	13,471,864	$81,340,025	390,172	$13,870,838
Exercise of options	66,612	1,872,615		
Acquired			31,600	1,040,604
Used			(135,000)	(5,062,566)
End	13,538,476	$83,212,640	286,772	$ 9,848,876

Stock issued from treasury was used for purchase of interest in company (See Note 1).

9. During the year, shareowners approved the 1969 Stock Option Plan, which authorized a maximum issuance of 300,000 shares. Options to officers and executives to purchase 417,963 shares of Kroger Common Stock were in force at December 28, 1968. Option transactions during 1969 may be summarized as follows: granted 142,500 shares; exercised 66,612 shares; expired or cancelled 36,100 shares. Options to purchase 457,751 shares (at prices ranging from $20.31 to $37.50 per share) were in force at December 27, 1969. Shares available for option at the beginning and close of the year were 42,300 and 221,850, respectively. Options for 195,836 shares were exercisable at December 27, 1969.

10. Per share amounts for Common Stock are based on the average number of shares outstanding during each year after recognition of the dividend requirements on the preferred shares.

11. The company operates principally in leased premises. Aggregate minimum annual rentals are approximately $52,815,000 of which $37,200,000 relates to leases outstanding at December 27, 1969, and expiring subsequent to 1974. Lease terms generally range from 10 to 25 years with options of renewal for additional periods. Options provide in some cases for renewals at reduced rentals and/or the right to purchase.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

LYBRAND, ROSS BROS. & MONTGOMERY
CAREW TOWER
CINCINNATI 45202

To the Shareowners and
Board of Directors
The Kroger Co.

We have examined the consolidated balance sheet of The Kroger Co. and Consolidated Subsidiary Companies as of December 27, 1969, and the related consolidated statements of income and accumulated earnings and the consolidated statement of sources and uses of funds for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of The Kroger Co. and Consolidated Subsidiary Companies for the year 1968.

In our opinion, the above referred to financial statements present fairly the consolidated financial position of The Kroger Co. and Consolidated Subsidiary Companies at December 27, 1969, and December 28, 1968, and the consolidated results of their operations and sources and uses of funds for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

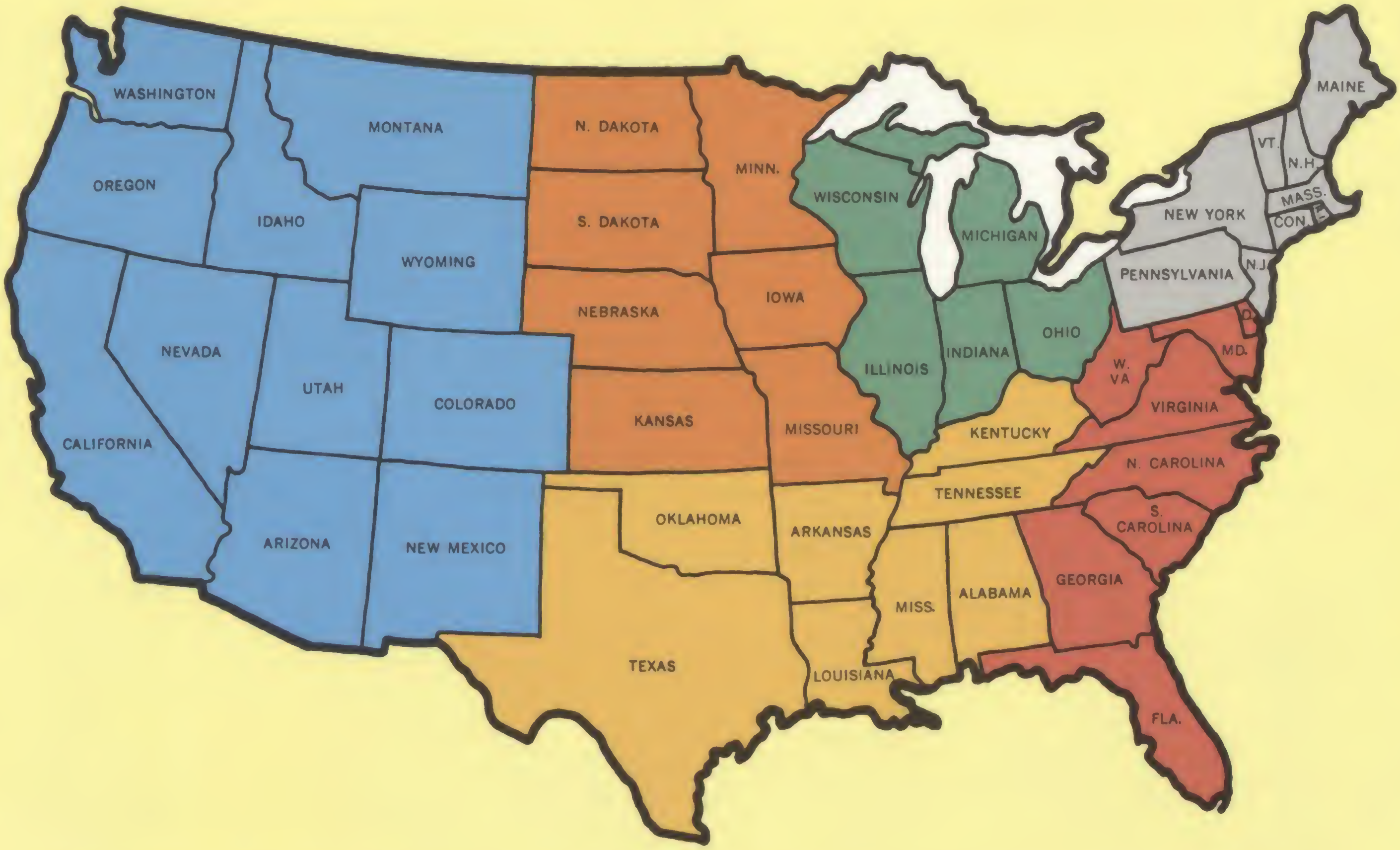
February 6, 1970

10 YEAR STATISTICAL SUMMARY

FOR THE YEAR (thousands of dollars)	1969		1968	1967	1966
SALES	$3,477,164		$3,160,838	$2,806,074	$2,659,983
INCOME BEFORE TAXES	65,168		59,647	43,716	48,402
NET INCOME	37,388	**	34,003	25,716	29,383
DIVIDENDS	17,034		17,091	17,170	17,157
RETAINED EARNINGS	21,696		16,912	8,546	12,226
DEPRECIATION AND AMORTIZATION	31,929		31,157	29,504	26,426
CAPITAL EXPENDITURES	77,448		56,768	48,307	66,626
COMMON STOCK (at year end)					
OUTSTANDING (thousands of shares)	13,252		13,082	12,497	12,415
NUMBER OF SHAREOWNERS	45,780		49,575	52,885	45,411
PER SHARE OF COMMON STOCK					
NET INCOME*	$ 2.84	**	$ 2.64	$ 1.98	$ 2.28
DIVIDENDS	1.30		1.30	1.30	1.30
SHAREOWNERS' EQUITY	23.34		21.53	19.65	18.92
AT THE YEAR-END (thousands of dollars)					
INVENTORIES	$ 271,889		$ 233,177	$ 205,120	$ 183,995
WORKING CAPITAL	56,319		77,562	87,967	66,940
FIXED ASSETS—NET	305,254		260,962	237,920	248,750
LONG-TERM DEBT	28,690		31,028	33,455	35,762
SHAREOWNERS' EQUITY	309,299		281,733	268,657	258,007
FOOD STORES					
NUMBER OF STORES	1,488		1,479	1,476	1,488
TOTAL AREA (thousands of square feet)	24,401		24,101	23,841	23,826
DRUG STORES					
NUMBER OF STORES	381		347	309	245
TOTAL AREA (thousands of square feet)	3,482		3,172	2,855	2,296
FAMILY CENTERS					
NUMBER OF STORES	29		21	12	9
TOTAL AREA (thousands of square feet)	1,516		1,093	693	530

** 1966–1969 Based on average number of shares outstanding during the year. Prior years based on shares outstanding at respective year ends.*
***Represents income before extraordinary item of $1,342,120 or $.10 per share arising from gain on sale of investment.*

1965	1964	1963	1962	1961	1960
$2,555,109	$2,327,563	$2,102,106	$1,947,571	$1,842,343	$1,870,290
56,112	54,449	45,084	44,219	35,036	48,218
31,302	27,923	22,079	20,424	16,953	23,478
16,392	15,228	14,168	13,846	13,858	13,745
14,910	12,695	7,911	6,579	3,094	9,733
24,204	22,308	20,027	18,932	18,992	17,723
44,489	31,761	31,379	36,151	32,655	37,620
12,515	12,585	12,634	12,625	12,621	12,547
40,804	41,602	42,904	39,936	36,368	35,663
$ 2.42	$ 2.14	$ 1.73	$ 1.62	$ 1.34	$ 1.87
1.22½	1.12½	1.10	1.10	1.10	1.10
17.72	16.81	15.94	15.39	14.96	14.75
$ 184,344	$ 169,501	$ 156,420	$ 131,832	$ 121,395	$ 118,783
90,410	102,272	93,949	82,086	95,695	77,682
216,013	198,357	190,955	174,684	169,967	164,215
41,174	42,945	44,565	62,617	63,434	46,302
244,958	235,239	224,592	194,304	188,885	185,077
1,457	1,430	1,423	1,363	1,354	1,372
23,150	22,242	21,973	19,788	18,940	18,265
180	146	119	66	18	7
1,722	1,420	1,156	606	181	58
3	3	2	1	—	—
171	171	111	54	—	—



AREA BY STATES	Kroger Food Stores	Kroger Food Processing	SupeRx Drug Stores	Family Center Stores	Top Value Gift Centers
NORTHEAST Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey & Pennsylvania.	50	—	19	—	60
CENTRAL Ohio, Indiana, Illinois, Michigan & Wisconsin.	757	11	133	4	147
MIDWEST Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska & Kansas.	109	3	30	6	24
SOUTHEAST Delaware, District of Columbia, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia & Florida.	144	1	88	1	106
SOUTH CENTRAL Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma & Texas.	351	3	74	18	142
WEST Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon & California.	77	1	37	—	8
TOTALS	1488	19	381	29	487

DIRECTORS

H. U. ANDREAE, *President,*
The Jeffrey Company

WILLIAM W. BOESCHENSTEIN
Executive Vice President,
Owens-Corning Fiberglas Corporation

BEN H. CARPENTER, *Chairman of the Board,*
Southland Life Insurance Company

JACOB E. DAVIS, *Chairman and President,*
The Kroger Co.

JOSEPH B. HALL
Former Chairman of the Kroger Board
President, Cincinnati Redevelopment Corporation

JAMES P. HERRING, *Vice President*
President, SupeRx Drug Stores

JOHN M. LOCKHART, *Executive Vice President*
President, Family Center Stores

T. BALLARD MORTON, JR., *President,*
Orion Broadcasting, Inc.

JAMES M. PHELAN, *Chairman of the Board,*
A. T. Kearney & Company, Inc.

W. GEORGE PINNELL, *Dean,*
Graduate School of Business,
Indiana University

R. NELSON SHAW, *President,*
Mercantile Stores Company, Inc.

EDWARD D. SMITH, *Chairman and President,*
The First National Bank of Atlanta

OFFICERS

ROBERT O. ADERS, *Vice President and Secretary*

JAMES E. BAKER, *Vice President and Treasurer*

JACOB E. DAVIS, *Chairman and President*

LYLE J. EVERINGHAM, *Vice President;*
President, Kroger Food Stores

JAMES P. HERRING, *Vice President;*
President, SupeRx Drug Stores

GENE D. HOFFMAN, *Vice President;*
President, Kroger Food Processing

BENNETT A. HUDSON, *Vice President*

JOHN M. LOCKHART, *Executive Vice President*
President, Family Center Stores

ROBERT MONTGOMERY, *Vice President*

WILLIAM P. RUNYAN, *Vice President;*
President, Top Value Enterprises, Inc.

ROBERT E. SAFFRON, *Vice President*

A. WAYNE SMITH, *Vice President*

JOHN L. STRUBBE, *Vice President*

CARL W. BRIESKE, *Controller*

ARTHUR L. FERGUSON, *Assistant Secretary*

IRLE R. HICKS, *Assistant Treasurer*

LORRENCE T. KELLAR, *Assistant Treasurer*

GEORGE A. LEONARD, *Assistant Secretary*

DIVISION OFFICERS

CLIFFORD E. ARMSTRONG, Los Angeles
BILL G. BEATY, Toledo
ROBERT W. BRAUNSCHWEIG, Meat Merchandising
NEWTON W. BRIGGS, Charleston
R. GUS BUBLITZ, Wisconsin
PAUL E. BURCH, Family Center
DAVID A. BURT, Grand Rapids
JOHN A. CORNETT, Dairy Foods
RONALD G. DAUGHERTY, Kansas City
F. LELAND DAVIS, Advertising
JACK W. DAVIS, Nashville
THOMAS E. DEWEY, Atlanta
WALTER R. DRYDEN, Cincinnati
H. ARVILLE FERGUSON, Dallas
JOHN W. FIRTH, Roanoke
EUGENE W. GRINER, Peoria
GARY L. HAMMONS, Property
STANLEY E. HUNGERFORD, Memphis
ARTHUR JUERGENS, SupeRx Administration
GEORGE W. KEITH, SupeRx Marketing
RICHARD M. KOSTER, Chicago
JAMES A. LEROY, Houston
STEWART W. LONG, Produce Merchandising
JOHN W. MARSH, Pittsburgh
PAUL P. MOORE, Cleveland
JOHN M. MULLEN, Sales
WILLIAM W. OLIVER, Louisville
JAMES B. PARKER, JR., Labor Relations
LEO P. PHILBIN, Indianapolis
GERARD J. REUSS, Fort Wayne
BOBBY D. REUSSER, Baked Foods
NERVILLE A. SAWALL, Detroit
EDMOND M. SHIPP, SupeRx Operations
CHESTER B. STERN, St. Louis
HAROLD P. TEMPLETON, Columbus
CHARLES L. THOMAS, JR., Grocery Merchandising
CHARLES T. VAN AUSDALL, Personnel
CHARLES W. WHITE, Little Rock
WALTER W. WHITE, Dayton

Kroger
Food
Stores

Kroger
Food
Processing

SupeRx
Drug
Stores

Family
Center
Stores

TopValue
Enterprises